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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Implementation of decision 96/40 on management, accountability and the Reserve for Field Accommodation

I. INTRODUCTION

1. The present conference room paper, submitted pursuant to paragraph 11 of Executive Board decision 96/40, provides information on the progress made in implementing a number of management actions relating to the Reserve for Field Accommodation (the "Reserve").

2. It is to be recalled that in his report on the Reserve (DP/1996/28/Add.3), submitted to the Executive Board at its third regular session 1996, the Administrator noted the serious management weaknesses and breakdowns in internal controls that had led to overexpenditure on contracts in the construction of housing and common premises. He indicated that a number of management actions had been taken or were under way in the Bureau for Finance and Administration (BFA) to review further problem areas and correct them. The Administrator also reported on the initiation of an investigation into managerial accountability undertaken by the Division for Audit and Management Review (DAMR), which will then report to the Special Advisory Committee on Managerial Accountability for ultimate decision-making by the Administrator.

II. SPECIAL INVESTIGATION AND ACCOUNTABILITY

3. In September 1996, it was foreseen that the ongoing investigation would be concluded by the end of 1996 and would be fully reported on at the first annual session of the Executive Board 1997. The investigation covers a review of activities over an eight-year period, involving a significant number of outside parties and staff at headquarters and in country offices.

4. The investigation has been the central focus of management action over the past six months and UNDP has devoted significant staff resources to it. DAMR is

leading the investigation; its work has been expedited with support from BFA, which has devoted its staff to the task, including the Deputy Director of the Division for Administrative and Information Services (DAIS) on an almost full-time basis. Over 40 individuals have been interviewed or have completed questionnaires on Reserve matters. Additional outside expertise has been obtained for advice on specialty contract areas, in particular, architectural and engineering services. Visits have been made to the major construction sites, discussions and negotiations have been undertaken at locations of contracted parties.

5. The investigation has proven to be a far more complex undertaking than was originally anticipated. It has not yet been completed and requires further work. It is anticipated, however, that matters internal to UNDP will be substantially completed by late January. The investigation will continue after January to address apparent irregularities in the contracting process with outside parties.

6. The Administrator has thus chosen to report through a conference room paper, supplemented by an oral report at the current session, in order to provide the Executive Board with up-to-date information. Until the investigation is completed, due process requirements vis-à-vis both outside parties and UNDP staff limit the possibility of the disclosure of detailed information concerning the actions or inactions that caused the situation. The Administrator assures the Executive Board that he will continue to report as and when information can be disclosed. Certain conclusions, however, can now be reported.

7. The findings of the investigation confirm what was already reported to the Executive Board, namely, that unauthorized expenditure has been incurred in violation of the UNDP Financial Regulations and Rules governing procurement and requirements for making payments. A number of irregularities appear to have occurred in contracting with outside parties. It is certain that UNDP has paid more than it should have to complete the construction projects. The causes of this include incompetence, negligence, gross negligence, misconduct and mismanagement by various individuals. The investigation has not yet ruled out collusion, which may or may not have involved UNDP staff members.

8. It is also confirmed that those internal controls such as construction project budgets, miscellaneous obligation documents, appropriate accounting and reporting systems that could have independently, or as a group, identified the mismanagement, were either not applied from the outset of construction activities or repeatedly failed, thereby allowing the situation to deteriorate.

9. UNDP has suffered from the action and inaction of key UNDP personnel and contracted parties whose responsibility it was to manage properly and supervise construction projects that were commensurate with organizational requirements; with due regard to economy; and in adherence to schedule.

10. Cases of mismanagement and misconduct will be referred to the appropriate UNDP disciplinary or other managerial or financial accountability review mechanisms. The Special Advisory Committee on Managerial Accountability, which was convened by the Administrator, is reviewing the results of the investigation

and is advising the Administrator on the appropriate course of action. Thus far, two staff members have been suspended pending completion of the investigation. The performance of a number of additional present and former staff members, including senior managers, is currently being considered for managerial accountability and/or disciplinary process. The Administrator will report to the Executive Board on the final disposition of the cases.

III. MANAGEMENT ACTIONS FOR THE RESERVE

11. In view of the seriousness of the situation, and in order to ensure that every effort is made to bring all outstanding management actions to successful conclusion, the Administrator placed the Deputy Director, DAIS, in his personal capacity and effective 19 December 1996, fully in charge of the management and supervision of the staff unit charged with undertaking common premises activities, including the representation in the Joint Consultative Group on Policy (JCGP) sub-group on housing and common premises. He reports directly to the Assistant Administrator and Director, BFA.

12. In addition, the administrative and financial management functions and structures of DOF and DAIS are being reorganized and streamlined, which will include the establishment of a financial and policy control unit to strengthen the overall management of financial policies and internal controls in UNDP. Training will also be an integral part of this effort.

13. Until the investigation is finalized, especially as it relates to the apparent irregularities in the contracting of outside parties, UNDP will not be in a position to complete the reconciliation of accounts and draw conclusions on the legitimacy of the reported overexpenditure. In addition, it is expected that the results of the investigation will lead to recovery actions. Consequently, UNDP is limited in its ability to reach closure in the near future in the following areas:

(a) Completion of the remaining construction project in Guinea-Bissau;

(b) Settlement of outstanding claims from contracted parties; and

(c) Settlement and collection of JCGP agency contributions.

14. Details of specific management action areas taken or that are being taken are described below.

Separating housing and office premises and related accounting treatment

15. As agreed by the Executive Board, UNDP is separating the assets currently in the Reserve. The assets relating to housing premises owned or leased by UNDP, and related transactions, including rehabilitation costs, income from rent/sale and expenditure from maintenance, shall be identified on a gross basis in a housing fund.

16. Capital expenditure on and income from office premises will be separately presented within a capital assets fund. UNDP is considering the separate

identification within the Fund of certain other capital asset categories held by the organization, such as large information system investments. The capital asset fund will operate on the basis of appropriations from general resources as a capital budget, separate and distinct from the biennial administrative budget. It will provide more transparent reporting on income and expenditure of a capital nature and will also provide for better management and planning. This approach is consistent with the practice within the United Nations Secretariat and conforms to United Nations Accounting Standards and the Accounting Standards of the International Accounting Standards Committee and has been discussed and agreed upon with the United Nations Board of Auditors. As a first step, the financial statements for 1996 will reflect the division of assets between housing and office assets. The introduction of other categories of capital assets will follow in the financial statements for 1997.

Housing operations

17. The Administrator confirms that UNDP will not construct or purchase any further housing premises. It is expected, however, that a certain amount of capital rehabilitation costs will be incurred over time. UNDP will manage these costs through rental income, as appropriate. UNDP will continue to explore the possibility with host Governments of arrangements for suitable housing for UNDP and agency staff, as necessary.

18. The Administrator reiterates that it is the policy of UNDP to dispose of housing wherever possible. UNDP currently operates 415 housing units in 28 countries. Of those, 51 are owned by UNDP and 32 are no longer needed. Changed conditions in the countries, including the availability of suitable housing from the private sector, have rendered the housing properties of limited use. UNDP is taking steps to dispose of these properties as quickly as is feasible, although the timeframe for disposal is difficult to determine since circumstances are unique in each country. Negotiations with the Government of Cape Verde are in progress and the sale is expected to be concluded in 1997.

19. Because the houses are on government-owned land, UNDP options for disposal are limited. It is expected that the sale price for the properties will be significantly lower than the cost of construction.

Office premises and JCGP

20. The issue of JCGP agency contributions is inextricably linked to the completion of the internal investigation, which includes making a final determination of legitimate construction costs. UNDP has briefed the agencies about the current status of the investigation and the agencies are ready to discuss their contributions when UNDP is in a position to do so.

21. UNDP supports the commitment of JCGP, in conformity with General Assembly resolutions, to share common office premises. In view of the problems thus far identified in the management of common premises projects, the JCGP sub-group for common premises and services has temporarily put on hold all common premises projects until the past issues are resolved and a future plan of action is agreed upon, including resolution of contributions, management and ownership. Without a doubt, professional capacity in real estate management and

construction is needed to pursue JCGP endeavours. It is the position of UNDP that, in the first instance, the host Governments should provide suitable office space to serve as common premises. In the absence of that, rental of premises from the private sector should be pursued. Third in priority would be for the Government to construct premises and then rent that space to the agencies. Finally, JCGP, together with the Government, should consider construction as a last resort. In any case, UNDP will no longer take such responsibility on its own, nor act as paymaster for such large and complex projects. JCGP will be taking up these matters at its January 1997 meeting.

Outstanding payments to contractors

22. As was reported at the third regular session 1996, a special payments review committee was established, with the participation of the United Nations Office of Legal Affairs, to review outstanding claims from contractors. In the report of the United Nations Board of Auditors (A/51/488/Add.2) it is indicated that $5.6 million of outstanding claims existed as at 31 December 1995. It was originally foreseen that this claims review was to be completed by December 1996; however, in view of apparent irregularities in contracting identified during the investigation, the legal counsel has advised that all individual payments be suspended until completion of the investigation.

23. Completion of the final construction project in Guinea-Bissau has been temporarily put on hold, and the contractor has been so informed, since the figures from the supervising architect, UNDP, and the contractor have not yet been reconciled.

IV. INTERNAL CONTROLS

24. UNDP has identified breakdowns in internal control that affect the Reserve, as well as transactions outside the Reserve.

25. The responsible units in DAIS and DOF have tightened controls for transactions relating to the Reserve to prevent recurrence of overpayments. Expenditure is controlled through the issuance of budgetary allotments and miscellaneous obligation documents. Certification and approval responsibilities have been clarified and are being properly exercised.

26. DOF is leading the effort to address organization-wide control issues with both short- and medium-term measures to ensure that similar failure will not occur in the future. In response to a finding during the review of the Reserve, the Director, DOF, has issued a circular to all UNDP headquarters units and country offices to close a gap identified in the certification and approval process for payments approved at headquarters for country office disbursement. At the same time, DOF has begun a thorough review of certification and approval practices throughout all headquarters units to clarify and reconfirm certain underlying concepts and to ensure that such functions are properly exercised and controlled.

27. The financial policy and control unit, referred to in paragraph 12, will report directly to the Director of Finance, and will be responsible for articulating, communicating, training, monitoring and assessing the implementation of financial policies and controls.

28. Procurement-related problems identified through the review of RFA activities are also being addressed. The Chief Procurement Officer is strengthening his support unit on procurement and, together with internal audit, expects to complete in 1997 a review and revision of procurement policy and procedure for UNDP.

V. CONCLUSION

29. The Administrator would like to assure the Executive Board that UNDP continues to pursue vigorously all avenues necessary to resolve the matter. He is confident that it will be brought to completion in a timely manner. Important lessons have been learned that concern organizational structure, internal controls and management oversight. These areas are a high priority for 1997, as reflected in the present report.

30. The Administrator also assures the Executive Board that the results of the investigation will be made available to the Executive Board, and to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions, as was recently decided by the Fifth Committee.

31. The Administrator intends to provide additional information in an oral report at the current session of the Executive Board since he expects that further progress will be achieved between the time of writing the present report and the consideration of this agenda item.